

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF BURKESVILLE GAS	)	
COMPANY, INC. FOR APPROVAL OF THE	)	
TRANSFER AND SALE OF KEN-GAS OF	)	
KENTUCKY, INC.,	)	
	)	
and	)	CASE NO. 90-294
	)	
APPLICATION OF BURKESVILLE	)	
GAS COMPANY, INC. FOR	)	
AN ORDER AUTHORIZING THE CREATION	)	
AND ISSUANCE OF \$1,300,000 OF LONG-	)	
TERM INSTRUMENTS OF INDEBTEDNESS	)	

O R D E R

By application filed October 29, 1990, Burkesville Gas Company, Inc. ("Burkesville Gas"), Ken-Gas of Kentucky, Inc. ("Ken-Gas"), and Consolidated Financial Resources, Inc. ("Consolidated") filed a joint application with this Commission requesting approval to transfer the assets of Ken-Gas to Burkesville Gas, and seeking authority to create and issue \$1,300,000 of long-term bonds. Burkesville Gas proposes to use the proceeds of the bond issuance to acquire the natural gas supply system owned by Ken-Gas and to provide funds for: extensions in the ordinary course of business, a required reserve fund, a capitalized interest fund, and to pay costs incurred in connection with the issuance of the bonds. Consolidated and Ken-Gas are the original incorporators of Burkesville Gas. After the transfer, Burkesville Gas will own 100 percent of the assets

associated with the gas distribution system known as Ken-Gas. Consolidated currently holds 51 percent of the outstanding shares of Burkesville Gas and Ken Gas holds the remaining 49 percent.

KRS 278.020(4) provides that the Commission shall grant approval of a transfer "if the person acquiring the utility has the financial, technical, and managerial abilities to provide reasonable service." The Commission has reviewed the joint application applying the standards set forth by statute and finds the transfer should be approved for the following reasons: The sales/purchase agreement shows that Ken-Gas has agreed to sell and Burkesville Gas has agreed to purchase certain assets, identified in Exhibit A of that agreement, used to provide natural gas to the City of Burkesville. After the transfer, Burkesville Gas will engage primarily in the sale of natural gas to residential, commercial, and industrial users in the Burkesville and Cumberland County, Kentucky areas. Burkesville Gas has represented to the Commission that the natural gas distribution system will be operated in the same manner after the transfer as Ken-Gas is now being operated. The impact on the existing customers should therefore be minimal. The system will continue to operate as an intrastate pipeline and distribution system, and no rate adjustments are requested. Burkesville Gas will continue to employ Kenneth Turner who is currently the person primarily responsible for the operation of the system. Exhibit 2 of the application indicates that Mr. Turner has significant experience in the natural gas industry from both the technical and operational standpoint.

Consolidated is a Texas corporation of public financiers. Consolidated was incorporated in 1985 and is a corporation in good standing in the state of Texas. Consolidated is primarily engaged in arranging financing for political subdivisions and businesses, and to date has been responsible for arranging over 270 transactions, accounting for approximately \$70,000,000 in financing for various entities. Consolidated employs staff experienced in accounting, economics, and financial analysis. Consolidated will lend considerable experience, expertise, and assistance in the sale of long-term instruments of indebtedness and other financial matters to Burkesville Gas.

Burkesville Gas has also requested authority to create and issue \$1,300,000 in long-term bonds. The bonds will be dated on the date of issue and will have a 20 year term. The interest rate on the bonds will be set not more than 14 days prior to the closing and will not exceed 12 percent annually. Burkesville Gas currently estimates the interest rate to be 9.25 percent. According to the January 22, 1991 response to a Commission data request, Item 11: Sources and Uses of Funds, \$953,572 will be used to acquire the natural gas distribution system including a propane injection back-up system and approximately \$267,000 will be required for extensions to new customers. The remaining proceeds will be used to pay bond issuance costs and to fund required reserves, as shown in the Source and Use of Funds exhibit, appended hereto and incorporated herein.

After consideration of the financing application, other evidence of record, and being otherwise sufficiently advised, the

Commission finds the proposed issuance and sale by Burkesville Gas of up to \$1,300,000 in principal amount of bonds is for lawful objects within its corporate purposes, is necessary and appropriate for and consistent with the proper performance of its service to the public, will not impair its ability to perform that service, is reasonably necessary and appropriate for such purposes, and should therefore be approved.

The beginning journal entries filed by Burkesville Gas appear to be consistent with the requirements of the Uniform System of Accounts ("USoA") prescribed for natural gas utilities and should be made to establish the initial accounting records of Burkesville Gas. The entries, when they are made, should be updated to reflect current values as of the date of the transfer for such accounts as Accumulated Depreciation and Customer Deposits. In addition, the reserve fund accounts required by the bond indenture should be disclosed and maintained separately as required by the USoA.

IT IS THEREFORE ORDERED that:

1. The transfer of the assets of Ken-Gas to Burkesville Gas be and it hereby is approved.
2. Burkesville Gas shall, within 30 days of the date of this Order, file an executed adoption notice adopting the current rates of Ken-Gas.
3. Burkesville Gas is hereby authorized to create and issue up to \$1,300,000 in long-term bonds.
4. Burkesville Gas shall, within 30 days after the issuance of the securities referred to herein, file with the Commission a

statement setting forth the date or dates of issuance of the securities authorized herein, the price paid, the interest rate, the terms, and all fees and expenses involved in the issuance and distribution.

5. Burkesville Gas shall agree only to such terms as are consistent with the parameters as set out in its financing application.

6. The proceeds from the transaction authorized herein shall be used only for the lawful purposes set out in the application.

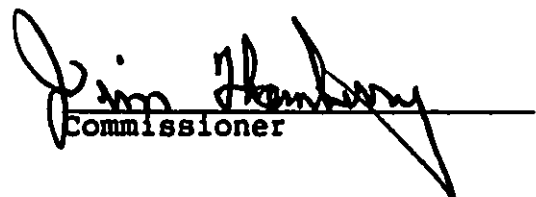
Nothing contained herein shall be construed as a finding of value for any purpose or as a warranty on the part of the Commonwealth of Kentucky or any agency thereof as to the issuance authorized herein.

Done at Frankfort, Kentucky, this 21st day of February, 1991.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

  
Executive Director

## APPENDIX

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 90-294 DATED 2/21/90

#### Source and Use of Funds

##### Source

Principal Amount of Bonds	\$1,300,000
Equity contribution	<u>265,000</u>

\$1,565,000

##### Use

Acquisition	\$ 840,200
Propane Injection System	\$86,044
Propane	<u>27,328</u>
	113,372
New Service Extensions	222,615
Feasibility Study	20,000
Reserve Fund	120,000
Capitalized Interest	120,000
Bond Issuance Cost	90,000
Consolidated Financial Resources, Inc.	20,384
Miscellaneous	<u>18,429</u>

\$1,565,000